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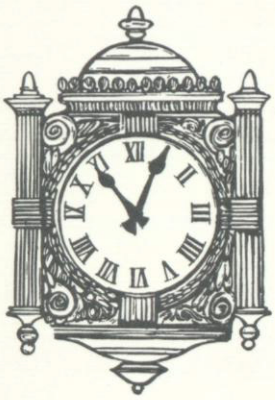

ANNUAL REPORT OF

MARSHALL FIELD & COMPANY

YEAR ENDED JANUARY 31, 1965

STANLEY FIELD

1875-1964

With the deepest sense of personal loss, the Directors of Marshall Field & Company record the death on October 28, 1964, of their valued associate and dear friend, Stanley Field.

He served this Company for the singular span of seventy-one years. Following the death of the founder, Marshall Field I, in 1906, Stanley Field was elected first vice president and a director. In 1917, he retired from active management responsibilities, resigned as first vice president, but continued to serve as a director until his death. He also served as chairman of the Executive Committee of the Board since 1939.

As a young man he was schooled in the high ideals and policies of the Company by the founder, his uncle. Faithful in his stewardship to these traditions, he was ever alert to changing conditions, farsighted and keen in his judgment.

As distinguished as his record with Marshall Field & Company, his contributions elsewhere were also unique. He established the Chicago Natural History Museum as a world-famous scientific institution, serving as president for more than half a century. He gave to it his guidance, his generosity and his exceptional spirit. He also served his community in an array of other cultural facilities including the Chicago Zoological Society, the Crerar Library and the Shedd Aquarium. He was a director of the Children's Memorial Hospital for more than forty years. During the first World War he gave distinguished service abroad as director of all purchases for the American Red Cross in France. The University of Chicago and Northwestern University awarded him honorary Doctor of Laws degrees. He received the Chicago Medal of Merit from the City of Chicago in 1958. He was business man, banker, philanthropist, scholar, public servant, and, to each of us, a beloved friend and a true gentleman.

We miss him, we mourn his loss and give our sympathy to his family. There never was anyone quite like Stanley Field and there never will be.

MARSHALL FIELD & COMPANY

founded in 1852
an Illinois corporation
incorporated in 1901

executive offices:

111 NORTH STATE STREET, CHICAGO, ILLINOIS 60690

1964

ANNUAL REPORT TO SHAREHOLDERS

General Counsel
WILSON & McILVAINE
Chicago

Public Accountants
ARTHUR ANDERSEN & CO.
Chicago

Transfer Agents
CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY OF CHICAGO
Chicago

MORGAN GUARANTY TRUST COMPANY OF NEW YORK
New York

Registrars
THE FIRST NATIONAL BANK OF CHICAGO
Chicago

BANKERS TRUST COMPANY
New York

THE STORY IN BRIEF

(in thousands of dollars)

	Fiscal Year		
	1964	1963	1962
Net Sales	$280,105	$256,615	$242,399
Income before Federal Taxes	24,497	19,040	18,490
Federal Taxes on Income	12,056	9,672	9,329
Net Income	12,441	9,368	9,161
Net Gain on Land Sale		2,250	
Net Income and Gain on Land Sale		11,618	
Per Common Share			
Net Income	3.09	2.33	2.26
Net Gain on Land Sale		.56	
Net Income and Gain on Land Sale		2.89	
Dividends Declared	1.65*	1.50	1.40
Cash and Securities	34,655†	22,973	24,437
Accounts Receivable	25,621†	34,387	30,086
Merchandise Inventories	42,518	37,852	34,878
Working Capital	69,909	64,782	61,386
Ratio of Current Assets to Current Liabilities	3.0	3.1	3.1
Property and Equipment Expenditures			
Modernization and Replacement	3,177	2,100	2,187
Expansion	1,759	4,377	4,137
Depreciation	4,760	4,518	4,325
Common Shareholders' Equity	116,785	110,773	104,959
Book Value per Common Share	28.91	27.49	26.13

* Annual dividend rate was $1.80 at the end of the fiscal year 1964, as the result of an increase in the quarterly rate from 40 cents to 45 cents in January 1965.

† At the end of the fiscal year 1964 all installment receivables were sold pursuant to the proposed adoption in 1965 of the installment method of tax accounting. The effect of the sale was to increase cash and securities and decrease accounts receivable by approximately $12,500,000.

MARSHALL FIELD & COMPANY

The Board of Directors submits to the Shareholders this annual report for the fiscal year ended January 31, 1965.

In 1964 your Company achieved substantial increases in sales and earnings, reflecting the year's favorable economic environment and high level of consumer demand.

Net Sales in 1964 were $280,105,000, 9 per cent above the 1963 volume of $256,615,000. All of our stores experienced sales gains.

Net Income for the year of $12,441,000 was 33 per cent greater than the $9,368,000 earned in the preceding year. Income before Federal taxes amounted to 8.7 per cent of sales in 1964 against 7.4 per cent in 1963. The 1963 earnings exclude extraordinary income of $2,250,000, the net gain on the sale of land.

Federal income tax laws provide for a tax reduction, or "investment credit," based upon capital expenditures for certain equipment. In determining net income the Company follows the policy of amortizing this investment credit over the depreciable life of such equipment. In 1964 this credit increased net income $57,000 compared with $16,000 for the prior year.

Earnings per Common Share amounted to $3.09 compared with $2.33 in 1963. The 1963 per share earnings exclude the net gain on the sale of land which was the equivalent of 56 cents per share.

Dividends at the quarterly rate of 40 cents per Common Share were paid during 1964, a total of $1.60 per share. By action of the Board of Directors on January 27, 1965, this rate was increased to 45 cents. The first dividend at the new rate was paid February 28, 1965. This is the fourth increase since October 1959, and the new annual rate of $1.80 exceeds by 60 per cent the amount paid prior to that time.

Installment Accounts Receivable of the Company were sold January 31, 1965, in order to adopt the installment method of tax accounting beginning February 1, 1965. Under this method the Federal income tax on installment sales is deferred until payments are received from customers. This one-time sale of receivables resulted in a temporary increase of approximately $12,500,000 in short-term investments on January 31, 1965, and a corresponding decrease in accounts receivable.

Working Capital at the 1964 fiscal year-end was $69,909,000, an increase of $5,128,000 over the 1963 year-end total of $64,782,000. In 1963 working capital increased $3,396,000. The ratio of current assets to current liabilities was 3.0 to 1 and 3.1 to 1 at the end of the respective years.

Cash and Securities on January 31, 1965, excluding approximately $12,500,000 of short-term securities cited above, totaled $22,255,000 compared with $22,973,000 on January 31, 1964. Receivables, immediately prior to the year-end sale of installment accounts, totaled $38,239,000 compared with $34,387,000 for the preceding year. Merchandise inventories on January 31, 1965, amounted to $42,518,000 and were $37,852,000 on the same date last year.

Funded Debt totaled $24,000,000 at the year-end. The Company exercised its option to prepay without premium, in March 1965, $1,000,000 of the principal amount of the long-term loan from the Metropolitan Life Insurance Company, thus reducing funded debt to $23,000,000.

Minimum Rent Obligations under long-term leases are approximately $630,000 per annum.

Capital Expenditures during the past year were $4,936,000. Of this amount $3,177,000 was spent for the modernization and replacement of existing facilities. The balance was expended toward the completion of expansion projects in progress during the year. Depreciation for 1964 was $4,760,000. Capital expenditures in 1963 totaled $6,477,000.

In August 1964 our Oakbrook store in west suburban Chicago opened a budget floor having a selling area of 35,000 square feet. This previously unoccupied space is contributing very satisfactorily to the over-all sales volume of that store. There is an additional unfinished area of 39,000 square feet at Oakbrook reserved for future expansion.

During the year extensive remodeling was completed in the Bellevue store near Seattle, and 40,000 square feet of previously unfinished space was fixtured and added to its selling area.

The enlargement of other outlying stores is under consideration.

Last year the first bank of fully automatic passenger elevators was installed in the main Chicago store, and an additional bank will be completed this year. All passenger elevators in the Store for Men were replaced with automatic elevators ten years ago.

The Company will continue its program of modernizing and refurbishing older stores.

During the year the General Offices, located since 1946 in the Company-owned Annex Building, were moved into the main Chicago store. It was possible to utilize existing office space and thus release for rental an entire floor in the Annex Building.

Retirement Program payments of $1,629,000 were made in 1964 compared to $1,040,000 in 1963. The market value of the Pension Trust assets on January 31, 1965, was $53,410,000. A total of $15,533,000 has been paid to 5,242 retired employes since the Trust was established in 1943. At the present time 3,784 former employes are receiving pension payments.

A Strong Sales Trend was experienced throughout the year in all of the Chicago stores and the Milwaukee suburban store at Mayfair. The sales volume of the downtown Chicago store approximated the highest in its history. This was especially significant in the light of our own expansion in the

suburbs and the large number of other new outlying department stores established in the area during recent years.

The increase in consumer demand in Seattle was somewhat less than the average for the nation. Consequently the sales gain of the Frederick & Nelson Division was more modest than that of the Chicago stores. Nonetheless, the performance of this Division improved as the year progressed, and the final results were quite satisfactory, both in sales volume and in profit.

Administrative Changes, as previously announced, included the retirement of Mr. James L. Palmer in May 1964 as President and Chief Executive Officer. His long and distinguished career with the Company was characterized by his devotion to its traditions and his determination to sustain its growth and progress. His abilities as an administrator and leader are reflected in the prosperity and well-being of the Company today.

Mr. John McKinlay elected to retire at the same time as Executive Vice President and Treasurer. During his many years of service his steadfast devotion to its principles greatly benefited the Company, especially in its financial affairs and its expansion program.

The following organizational changes were made by the Board of Directors on May 6, 1964:

Mr. Gerald A. Sivage was elected President and Chief Executive Officer.

Mr. David W. Davidson was elected Executive Vice President of the Company and appointed General Manager of the Chicago Stores Division.

Mr. Harry D. Perkins was elected Senior Vice President of the Company and appointed General Merchandise Manager of the Chicago Stores Division.

Mr. Earle Harrison was elected Vice President and Treasurer of the Company.

Each of these men has had long and varied experience with Marshall Field & Company.

Following the death of Mr. Stanley Field, the By-Laws were amended by action of the Board of Directors on December 30, 1964, to reduce the Board from twelve to eleven members.

Looking to the Future, your Company has the financial resources and the experienced organization to further develop and expand its activities. This year, although the gains in retailing possibly may be less imposing than those of 1964, we expect our results to be good.

Finally, we express our gratitude for the interest of shareholders, the patronage of the shopping public, the contribution of loyal and seasoned employes and the cooperation of suppliers, both domestic and foreign. The support of all of these groups is deeply appreciated by your management.

By Order of the Board of Directors,

G. A. Sivage

March 17, 1965

President

MARSHALL FIELD & COMPANY

INCOME STATEMENT

	Fiscal Year Ended January 31, 1965	Fiscal Year Ended January 31, 1964
NET SALES	$280,104,653	$256,614,758
DEDUCT:		
Cost of goods sold and expenses, exclusive of items listed below	$240,583,692	$222,887,054
Maintenance and repairs	2,654,611	2,574,394
Depreciation and amortization	4,760,186	4,517,737
Taxes other than Federal income taxes	6,128,685	6,313,291
Rentals paid	983,256	917,150
Net interest expense	496,975	365,513
Federal income taxes	12,056,000	9,672,000
	$267,663,405	$247,247,139
NET INCOME FOR THE YEAR	$ 12,441,248	$ 9,367,619
Gain Realized on Sale of Land, less Applicable Federal Income Taxes		2,250,000
NET INCOME AND GAIN ON LAND SALE		$ 11,617,619

Note: For the fiscal years ended January 31, 1965 and 1964, the cost of goods sold, buying and occupancy expenses were $197,920,020 and $183,641,621, respectively, and selling, general and administrative expenses were $57,190,410 and $53,568,005, respectively.

EARNED SURPLUS

BALANCE AT JANUARY 31, 1964	$82,209,691
Net income for the year	12,441,248
	$94,650,939
Cash dividends on Common Shares—$1.65 per share	6,658,187
BALANCE AT JANUARY 31, 1965	$87,992,752

SOURCE AND DISPOSITION OF FUNDS

	Fiscal Year Ended January 31, 1965	Fiscal Year Ended January 31, 1964
SOURCE OF FUNDS:		
Net income for the year	$12,441,248	$ 9,367,619
Depreciation and amortization	4,760,186	4,517,737
	$17,201,434	$13,885,356
Net gain on land sale	—	2,250,000
Sales of Common Shares under options	229,647	231,448
Miscellaneous	290,401	541,608
	$17,721,482	$16,908,412
DISPOSITION OF FUNDS:		
Additions to property and equipment	$ 4,935,650	$ 6,477,075
Dividends to shareholders	6,658,187	6,035,565
Payments on long-term debt	1,000,000	1,000,000
	$12,593,837	$13,512,640
INCREASE IN WORKING CAPITAL	$ 5,127,645	$ 3,395,772

MARSHALL FIELD & COMPANY BALANCE SHEET

	January 31, 1965	January 31, 1964
ASSETS		
CURRENT ASSETS:		
Cash	$ 9,029,175	$ 9,422,578
Short-term investments, at cost (see note)	25,625,376	13,550,851
Receivables from customers and others, including at January 31, 1965, $1,381,660 due from purchaser of installment receivables sold (see note), less allowance for doubtful accounts of $951,000 at the end of each year	25,620,910	34,387,146
Merchandise inventories, priced at the lower of cost or market	42,517,888	37,852,109
Prepaid insurance, supply inventories, etc.	1,434,736	990,072
Total Current Assets	$104,228,085	$ 96,202,756
PROPERTY AND EQUIPMENT:		
Land, at cost	$ 18,277,954	$ 18,545,925
Buildings, leaseholds and equipment, at cost	100,086,154	96,571,830
	$118,364,108	$115,117,755
Less—Accumulated depreciation and amortization	47,487,913	44,126,623
Net Property and Equipment	$ 70,876,195	$ 70,991,132
GOODWILL, TRADEMARKS, ETC.	$ 1	$ 1
	$175,104,281	$167,193,889

Note: As of January 31, 1965, all installment receivables were sold pursuant to the proposed adoption effective February 1, 1965, of the installment method of tax accounting. At January 31, 1965, the effect of the sale was to increase short-term investments and decrease receivables by approximately $12,500,000.

	January 31, 1965	January 31, 1964
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	$ 8,676,657	$ 8,312,086
Accrued Federal income taxes	10,177,899	8,815,411
Other accrued liabilities	15,464,367	14,293,742
Total Current Liabilities	$ 34,318,923	$ 31,421,239
3¾% NOTES, maturing from 1972 to 1982	$ 24,000,000	$ 25,000,000
SHAREHOLDERS' EQUITY:		
Cumulative Preferred Shares—		
Authorized 150,000 shares of $100 par value, issuable in series; no shares issued.		
Common Shares—		
Authorized 8,000,000 shares of no par value. At January 31, 1964, options for 47,180 shares were outstanding and 134,880 shares were available for granting of options. During the year options were granted for 32,400 shares, exercised for 10,310 shares, and cancelled for 1,260 shares. At January 31, 1965, options for 68,010 shares were outstanding at $14.50 to $51.25 per share, of which 34,810 shares were exercisable currently; 103,740 shares were available for granting of options.		
Issued and outstanding 4,039,176 shares at January 31, 1965, at stated value	$ 19,845,012	$ 19,615,365
Paid-in Surplus	8,947,594	8,947,594
Earned Surplus ($47,759,365 available for dividends on Common Shares under terms of 3¾% Notes)	87,992,752	82,209,691
Total Shareholders' Equity	$116,785,358	$110,772,650
	$175,104,281	$167,193,889

ARTHUR ANDERSEN & CO.

69 WEST WASHINGTON STREET
CHICAGO 60602

To the Shareholders of
Marshall Field & Company:

We have examined the balance sheet of MARSHALL FIELD & COMPANY (an Illinois corporation) as of January 31, 1965, and the related statements of income, earned surplus and source and disposition of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of income, earned surplus and source and disposition of funds present fairly the financial position of Marshall Field & Company as of January 31, 1965, and the results of its operations and the source and disposition of its funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR ANDERSEN & CO.

Chicago, Illinois
March 5, 1965

BOARD OF DIRECTORS

EDWARD McC. BLAIR	*Partner, William Blair & Company*
JOHN M. BUDD	*President, Great Northern Railway Company*
KENT CHANDLER	*Director, A. B. Dick Company*
DAVID W. DAVIDSON	*Executive Vice President of the Company*
MARSHALL FIELD	*President and Publisher, Chicago Sun-Times and Chicago Daily News*
HENRY P. ISHAM	*Chairman of the Board, Clearing Industrial District, Inc.*
WILLIAM V. KAHLER	*Director and Former Chairman, Illinois Bell Telephone Company*
HUGHSTON M. McBAIN	*Former Chairman of the Company*
JOHN McKINLAY	*Former Executive Vice President of the Company*
JAMES L. PALMER	*President, Chicago Natural History Museum*
GERALD A. SIVAGE	*President of the Company*

CORPORATE OFFICERS

GERALD A. SIVAGE	*President*
DAVID W. DAVIDSON	*Executive Vice President*
HARRY D. PERKINS	*Senior Vice President*
CORNELIUS J. BYRNE	*Vice President*
RALPH E. BOWERS	*Vice President and Secretary*
EARLE HARRISON	*Vice President and Treasurer*
GEORGE G. RINDER	*Vice President and Comptroller*
CHARLES M. RHODES	*Assistant Treasurer*
ROBERT A. WILBRANDT	*Assistant Secretary*

DIVISION OFFICERS

Chicago Stores Division

VERLE L. BARBER	*Vice President, Merchandising*
EINAR L. BJORKLUND	*Vice President, Merchandising*
JOSEPH A. BURNHAM	*Vice President, Operating*
WILLIAM L. ENGLISH	*Vice President, Divisional Comptroller*
JOSEPH N. FIELD	*Vice President, Merchandising*
CHARLES W. FOLDS	*Vice President, Merchandising*
CLARENCE T. GREGG	*Vice President, Merchandising*
CARL D. GULDAGER	*Vice President, Advertising and Public Relations*
CHARLES C. HOLLOWAY	*Vice President, Merchandising*
DONALD K. KEITH	*Vice President, Merchandising*
JOHN T. MOSS	*Vice President, Design*
LLOYD H. RICHMOND	*Vice President, Personnel*
WILLIAM C. STETSON	*Vice President, Merchandising*
PAUL H. STROHM	*Vice President, Merchandising*

Frederick & Nelson Division

JASPER UTZ	*Vice President, General Merchandise Manager*
M. L. STORHOW	*Vice President, Operating*

Mayfair Division

ARNOLD D. K. MASON	*Vice President, Merchandising*

STORE LOCATIONS

In the Chicago Area

Marshall Field & Company
111 North State Street, Chicago

Evanston
1700 Sherman Avenue, Evanston

Lake Forest
682 North Bank Lane, Lake Forest

Oakbrook
One Oakbrook Center Mall, Oak Brook

Oak Park
1144 Lake Street, Oak Park

Old Orchard
One Old Orchard, Skokie

Park Forest
333 Plaza, Park Forest

In the Milwaukee Area

Mayfair
One Mayfair Mall North
Wauwatosa, Wisconsin

In the Seattle Area

Frederick & Nelson
5th and Pine Streets, Seattle

Aurora Village
20218 Aurora Village Square North
Seattle

Bellevue Square
Bellevue, Washington

COMMERCIAL FURNISHINGS

Contract Sales Division

201 Merchandise Mart
Chicago